

Message Text

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ACTION AF-10

INFO OCT-01 ARA-10 EUR-12 EA-10 NEA-10 ISO-00 IO-13

SOE-02 AID-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-08 DOE-15 H-01 INR-10 INT-05 L-03 NSAE-00

NSC-05 OMB-01 PM-05 ICA-11 OES-07 SP-02 SS-15

STR-07 TRSE-00 ACDA-12 PA-01 /182 W

-----094263 120906Z /20

R 111201Z APR 78

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 7787

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BONN

AMEMBASSY CARACAS

AMEMBASSY DOHA

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US OECD PARIS UNN

USINT BAGHDAD

AMCONSUL DHARAN

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E.O. 11652: N/A

TAGS: ENRG, EFIN, ECON, EAID, PINT, NI

SUBJECT: NIGERIAN OIL SLUMP -- OUTLOOK BLEAK

REF: (A) LAGOS 2005, (B) LAGOS 4430 (NOTAL)

SUMMARY: FOLLOWING EXPIRATION OF LONG-TERM PURCHASING AGREEMENTS

END-1977 NIGERIAN OIL PRODUCTION SLUMPED TO 1.5 MILLION BARRELS PER DAY IN MARCH, LOWEST MONTHLY RATE IN OVER SIX YEARS. THREE LARGEST PRODUCERS OPERATING AT ONLY 60 PERCENT OF CAPACITY. FIRST QUARTER CRUDE EXPORTS WERE 30 PERCENT BELOW 1977 FIRST QUARTER. GOVERNMENT OIL COMPANY FINDING BUYERS SCARCE. SECOND QUARTER PRICE CUTS 9& 1-2 PERCENT SEEN UNLIKELY TO CHANGE TREND, WHICH FOR 1978 WOULD HOLD GOVERNMENT OIL REVENUES TO DOLS 7-7.6 BILLION RANGE, OR 23-28 PERCENT BELOW 1977 INCOME. ENSUING DEBATE OVER OIL POLICY MAY BECOME HEATED. END SUMMARY.

1. FOLLOWING THE EXPIRATION ON DECEMBER 31, 1977 OF LONG TERM PURCHASING AGREEMENTS WHICH OBLIGATED PRODUCING OIL COMPANIES TO LIFT SUBSTANTIAL VOLUMES OF OIL OVER AND ABOVE THEIR EQUITY ENTITLEMENTS, NIGERIAN CRUDE OIL PRODUCTION AND EXPORTS HAVE GONE INTO A SUSTAINED NOSEDIVE IN FIRST QUARTER 1978. ACCORDING TO PRELIMINARY ESTIMATES, PRODUCTION IN MARCH FELL TO THE LOWEST LEVEL RECORDED IN OVER SIX AND A HALF YEARS, 1,508,701 BARRELS PER DAY (B/D).

2. THE FOLLOWING TABLE SHOWS PRODUCTION BROKEN DOWN BY COMPANIES FOR THE PAST FOUR MONTHS. THE MOST NOTABLE FEATURES ARE THE SHARE DECLINES RECORDED BY SHELL/BP AND MOBIL SINCE DECEMBER, AN THE DROP BY GULF IN MARCH. TAKEN TOGETHER, THESE THREE COMPANIES ARE NOW OPERATING AT ONLY 60 PERCENT OF CAPACITY. PRODUCTION BY OTHER COMPANIES HAS REMAINED RELATIVELY LEVEL, AND IN THE CASE OF AGIP/ LIMITED OFFICIAL USE

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PHILLIPS HAS EVEN RISEN SUBSTANTIALY.

				PERCENT	
	ESTIMATED			CHANGE	
COMPANY	MARCH 78	FEB. 78	JAN. 78	DEC.77	DEC-MARCH
SHELL/BP	893,000	825,259	875,225	1,067.455	(MINUS)16.3
GULF	139,170	264,288	247,020	237,985	(MINUS)41.4
MOBIL	97,300	111,144	172,101	214,837	(MINUS)54.7
AGIP/					
PHILLIPS	229,300	217,359	198,742	186,891	(PLUS)22.7
ELF	81,831	79,977	75,297	76,348	(PLUS)7.4
TEXACO	48,300	48,367	50,955	52,996	(MINUS)8.9
PAN OCEAN	11,100	10,830	10,700	9,226	(PLUS)20.3
ASHLAND	8,700	9,018	7,909	6,583	(PLUS)32.2

ALL

COMPANIES 1,508,701 1,566,242 1,637,949 1,852,321(MINUS)18.6

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R 111201Z APR 78

FM AMEMBASSY LAGOS

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284,780 B/D ON ITS OWN. MOREOVER, AT LEAST 100,000 B/D OF THE LATTER DOES NOT REALLY CONSISTUTE EXPORT CRUDE, BUT IS DELIVERED TO CARIBBEAN REFINERIES IN EXCHANGE FOR REFINED PRODUCTS FOR DOMESTIC CONSUMPTION.

4. THE NIGERIAN NATIONAL PETROLEUM CORPORATION (NNPC) HAS NOTIFIED PRODUCING COMPANIES OF PRICE REDUCTIONS FOR SECOND QUARTER 1978. THE NEW POSTED AND SALES PRICES FOR THE VARIOUS EXPORT BLENDS ARE AS FOLLOWS:

	SECOND POSTED QUARTER	FIRST QUARTER	CENTS SALES PRICE	CHANGE
CRUDE & API	PRICE	SALES PRICE	SALES PRICE	
BRASS RIVER 43	14.98	14.13	14.36	(MINUS).23
BONNY LIGHT				
& QUA IBOE 37	14.94	14.10	14.31	(MINUS).21
ESCRAVOS 36	14.91	14.07	14.28	(MINUS).21
PENNINGTON 34	14.84	14.01	14.22	(MINUS).21
FORCADOS 31	14.49	13.70	14.01	(MINUS).31
BONNY MEDIUM26	14.32	13.55	13.66	(MINUS).11

5. IT IS HARD TO PREDICT WHETHER THE PRICE CUTS ANNOUNCED FOR THE SECOND QUARTER WILL BE SUFFICIENT TO REVIVE NIGERIAN CRUDE OIL EXPORTS TO ANY GREAT EXTENT. ACCORDING TO PIW, U.S. GASOLINE INVENTORIES ARE STILL HIGH, THE END-OF-WINTER PICKUP IN DEMAND FOR LOW SULPHUR FUEL OIL IS EXPECTED TO BE SHORT LIVED, SURPLUS

LOW-SULPHUR FUEL OIL IS MOVING FROM THE WEST COAST TO THE EAST WHERE NIGERIA'S MARKET IS LOCATED, AND NORTH SEA PRICES ARE STILL WELL BELOW NIGERIAN PRICES. WHILE INDUSTRY SOURCES EXPECT THE PRICE CUT TO PICK UP SALES SLIGHTLY, THEY CONTEND IT IS TOO LITTLE TO INDUCE BUYERS TO BIND THEMSELVES YET TO NEW LONG TERM PURCHASE CONTRACTS.

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6. THE OUTLOOK FOR FMG OIL REVENUES IN 1978 IS RATHER BLEAK. GOVERNMENT REVENUES FROM OIL EXPORT IN THE FIRST QUARTER AMOUNTED TO APPROXIMATELY DOLS 1,765.4 MILLION. IF EXPORTS RISE 100,000 B/D IN APRIL TO THE AVERAGE FOR THE FIRST QUARTER AND REMAIN AT THAT LEVEL, REVENUES FOR THE BALANCE OF THE YEAR WILL AMOUNT TO DOLS 5,305.3 MAKING A TOTAL OF DOLS 7,070.7 FOR THE YEAR. EVEN IF EXPORTS RISE 250,000 B/D ABOVE THE MARCH LEVEL AND STAY THAT HIGH. REVENUES FOR THE YEAR WILL BE ONLY SLIGHTLY OVER DOLLARS 7.6 BILLION. THIS WILL REPRESENT A VERY SUBSTANTIAL DROP FROM THE DOLS 9,688.7 EARNED

IN 1977.

7. THE IMPLICATIONS OF THIS REVENUE PROJECTION ARE ALREADY BEING FELT IN THE NEW BUDGET WHICH HAS BEEN ANALYZED IN SEPTELS. ALTHOUGH OIL INDUSTRY SOURCES EXPECTED THAT 1978 WOULD BE A BOOM YEAR FOR INVESTMENT IN EXPLORATION AND DEVELOPMENT FOLLOWING THE ANNOUNCEMENT OF NEW FISCAL INCENTIVES IN MAY 1977, IT IS NOW BE-

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AID-05 CEA-01 CIAE-00 COME-00 DODE-00 EB-08

DOE-15 H-01 INR-10 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-05 ICA-11 OES-07 SP-02 SS-15 STR-07

TRSE-00 ACDA-12 PA-01 /169 W

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R 111201Z APR 78

FM AMEMBASSY LAGOS

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INFO AMEMBASSY ABU DHABI

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COMING CLEAR THAT OIL COMPANIES HAVE LITTLE INCENTIVE TO INVEST IN NEW PRODUCTION CAPACITY WHEN THEIR EXISTING FACILITIES ARE HEAVILY UNDER-UTILIZED. WHILE EXPLORATORY DRILLING WILL CONTINUE TO PICK UP BECAUSE THE NEW INCENTIVES HAVE MADE IT LESS EXPENSIVE AND RISKY, THE COMMERCIAL OPPORTUNITIES IN NIGERIA FOR ON-SHORE AND OFF-SHORE CONSTRUCTION COMPANIES AND OILFIELD PIPE AND EQUIPMENT SUPPLY COMPANIES WILL BE SHARPLY DIMINISHED IN 1978.

8. WILL NIGERIA LOWER ITS OIL PRICES ANY FURTHER IN ORDER TO RESTORE SALES AND REVENUES? THIS IS A DIFFICULT QUESTION TO ANSWER. NNPC AND FMR OFFICIALS APPEAR GENUINELY CONCERNED THAT, IN THE FACE OF CONTINUED WEAK DEMAND FOR LIGHT LOW-SULPHUR CRUDES, FURTHER PRICE REDUCTIONS MAY SIMPLY LEAD TO A DAMAGING OIL COMPANY INSPIRED PRICE WAR WITH LIBYA AND ALGERIA. THEY ARE CONCERNED NOT ONLY ABOUT OPEC OPINION, BUT ALSO WORRIED ABOUT THE DAMAGE WHICH MIGHT BE DONE TO THEIR CAREFULLY NURTURED IMAGE AS AN INTERNATIONAL POWER AND LEADER OF BLACK AFRICA IF THEY APPEAR TO BE ALLOWING THE DEVELOPED COUNTRIES TO DICTATE THEIR OIL POLICY. ONE SEES A CONTROVERSY BEGINNING TO EMERGE BETWEEN THOSE ON THE ONE HAND WHO CONTEND OFTEN HEATEDLY, THAT THE FMG HAS NO OIL PRICE POLICY, DOES NOT KNOW WHAT TO DO NOW THAT PRICES ARE NO LONGER RISING AUTOMATICALLY, AND IS JEOPARDIZING THE ECONOMIC WELFARE OF THE NATION THROUGH RIGID ADHERENCE TO SUPERFICIAL POSTURING AND LACK OF DECISIVE LEADERSHIP; AND THOSE ON THE OTHER HAND WHO INSIST THAT INFLATION GENERATED BY ILLUSIONS OF AN ENDLESS OIL BOOM WAS THE REAL THREAT TO THE COUNTRY AND THE ONLY SOLUTION IS FOR NIGERIA TO BIT THE BULLET, KEEP OIL PRICES HIGH, ACCEPT THE CONSEQUENT FALL IN PRODUCTION, AND LIVE WITH THE RESULTING LOWER INCOME, WHICH IN ANY CASE WILL BE MORE IN LINE WITH WHAT THE COUNTRY IS REALISTICALLY CAPABLE OF MANAGING AND SPENDING SENSIBLY. THIS CONTROVERSY IS SURE TO SPILL OVER INTO POLITICAL DEBATE AS

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NIGERIA NEARS CIVILIAN RULE, AND COULD WELL BECOME AN INFLAMMATORY ISSUE IF BUDGET CUT-BACKS LEAD TO SUBSTANTIAL INCREASE UNEMPLOYMENT.

EASUM

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 apr 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LAGOS04516
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780157-0146
Format: TEL
From: LAGOS
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780468/aaaacfju.tel
Line Count: 330
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 708e61b2-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: ONLY
Reference: 78 LAGOS 2005, 78 LAGOS 4430
Retention: 0
Review Action: RELEASED, APPROVED
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Review Date: 29 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3000208
Secure: OPEN
Status: NATIVE
Subject: NIGERIAN OIL SLUMP -- OUTLOOK BLEAK
TAGS: ENRG, EFIN, ECON, EAID, PINT, NI
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/708e61b2-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014